

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2016-384-S - ORDER NO. 2018-445

JUNE 27, 2018

IN RE: Application of Moore Sewer, Inc. for) ORDER APPROVING
Adjustment of Rates and Charges and) ADJUSTMENT IN RATES
Modification to Certain Terms and) AND CHARGES AND
Conditions for the Provision of Collection-) MODIFICATION OF
Only Sewer Service) TERMS AND
) CONDITIONS

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the “Commission”) on the Application of Moore Sewer, Inc. (“Moore”, the “Company”, or “Applicant”) for an increase in rates and charges for the provision of sewer service and the modification of certain terms and conditions related to the provision of such service (“Application”). Pursuant to S.C. Code Ann. § 58-5-240 (2015) and S.C. Code Ann. Regs. 103-512.4.A, the Applicant filed its Notice of Intent on November 15, 2016, and subsequently its Application on December 20, 2017, with a test year ending December 31, 2016 (“Test Year”).

By letter dated January 3, 2018, the Commission’s Clerk’s Office instructed Moore to publish a prepared Notice of Filing and Hearing and Pre-file Testimony Deadlines, one time, in newspapers of general circulation and provide a Proof of Publication on or before February 8, 2018. The January 3, 2018, letter also instructed Moore to notify its customers via bill inserts and provide certification of the notice to the Commission on or before

February 8, 2018. On January 8, 2018, Moore requested revisions to the Notice of Filing dates. On January 9, 2018, the Commission granted Moore's request and instructed Moore to publish the notice on or before February 1, 2018, and provide a Proof of Publication on or before February 22, 2018. On January 24, 2018, the Company filed a Revised Notice of Hearing, along with a Revised Exhibit A reflecting the Company's proposed schedule of rates and charges.¹ On February 23, 2018, the Company filed an Affidavit of Publication for the Notice of Filing and Hearing from The Spartanburg Herald-Journal and Certificate of Service demonstrating that the Notice of Filing and Hearing and Pre-file Testimony Deadlines had been duly published and provided letters certifying that it had complied with the instructions of the Commission's Clerk's Office.

On February 13, 2018, the Commission received the first requests for a night hearing from several Moore customers.² On March 7, 2018, the Commission's Clerk's Office issued a Notice of Public Night Hearing, in which the Commission scheduled the Public Night Hearing ("Night Hearing") for May 3, 2018, at 6:00 p.m., to occur at the Spartanburg County Council Chambers, 366 N. Church Street, Spartanburg, South Carolina. Also on March 7, 2018, the Commission's Clerk's Office instructed Moore to publish a prepared Notice of Public Night Hearing, by U.S. Mail, to each customer and

¹ In the accompanying filing letter, the Company indicated that the only change to Exhibit A was the addition of a Proposed Commercial Rate. However, the Revised Exhibit A failed to include the same Notice of Disconnect Fee that the original Exhibit A included. Therefore, notice was not provided regarding any increase to the Notice of Disconnect Fee.

² Subsequent requests were also received, with approximately 33 customers requesting a night hearing in Spartanburg.

provide a Proof of Publication on or before April 3, 2018.³ On April 6, 2018, Moore filed an affidavit of mailing and Notice of the Public Night Hearing and Certificate of Service demonstrating that the Notice of Public Night Hearing had been duly published and certifying that it had complied with the instructions of the Commission's Clerk's Office.

As reflected in the Revised Notice of Filing and Hearing and Pre-file Testimony Deadlines, the Company proposed new monthly sewer service rates for its service territory consisting of the Linville Hills and Madera Village subdivisions. By its Application, the rate sought by the Company would permit it the opportunity to earn an additional \$133,142.40 in annual revenues.

No party filed a petition to intervene in this matter. Pursuant to S.C. Code Ann. § 58-4-10(B) (Supp. 2015), the South Carolina Office of Regulatory Staff ("ORS") is a party of record in this proceeding.⁴

II. TESTIMONY FROM THE PARTIES AND PUBLIC WITNESSES

On April 12, 2018, the Company filed with the Commission the Direct Testimony and Exhibits from Janet Teichman in support of its Application. ORS filed the Direct Testimony and Exhibits of its witnesses Daniel F. Sullivan and Anthony M. Sandonato with the Commission on April 27, 2018. The Company filed Rebuttal Testimony from its witness Teichman on May 7, 2018. ORS filed Surrebuttal Testimony and Exhibits from witness Sullivan and Surrebuttal Testimony from witness Sandonato on May 15, 2018.

³ The Commission's Clerk's Office later changed the notice date to April 10, 2018.

⁴ Moore and ORS are referred to herein as the "Parties."

On May 3, 2018, the Commission held a Night Hearing in Spartanburg, South Carolina. The sign-in sheets for the Night Hearing were offered into the record as Hearing Exhibit 1. A total of fourteen (14) customers of Moore provided testimony at the Night Hearing. The public witnesses voiced general objections to the amount of the requested increase in rates. Public witnesses Teresa Roper and Elias Marzouka testified regarding their bills from Spartanburg Water System, which were placed into the record.⁵ Public witness Michael Hollis did not testify as he stated his comments were already addressed by another customer, but Mr. Hollis offered his Moore sewer bill as evidence.⁶

At the merits hearing, held at the Commission's hearing room on May 22, 2018 at 10:30 a.m., the Commission heard the parties present their evidence. The Honorable Swain Whitfield, Chairman of the Commission, presided. Moore was represented by John J. Pringle, Jr, Esquire, and ORS was represented by Jenny Pittman, Esquire, and Lessie Hammonds, Esquire. No public witnesses appeared at the merits hearing.

Moore witness Teichman, was sworn in and had her pre-filed Direct and Rebuttal Testimonies entered into the record as if given orally from the stand.⁷ Witness Teichman answered a series of questions from her attorney regarding her testimonies and was made available for cross-examination by ORS and for examination by the Commission.

⁵ Ms. Roper's bill is Hearing Exhibit 2 and Mr. Marzouka's bill is Hearing Exhibit 3. These bills include sewer treatment charges which are not billed by Moore.

⁶ Mr. Hollis's bill from Moore is Hearing Exhibit 4.

⁷ Witness Teichman also made numerous corrections to her Direct Testimony and one change to her Rebuttal Testimony.

Mrs. Teichman is one of two shareholders of Moore, the other being her husband William Teichman.⁸ Witness Teichman testified that she is responsible for the day-to-day operations of Moore, handling various tasks related to billing and field work.⁹ Witness Teichman testified about her years of experience in working with sewer utilities.¹⁰ Witness Teichman testified that the purpose of her pre-filed Direct Testimony was to provide an overview of the Company and its operations and show why the Company is in need of the increase it requested to its monthly sewer service charge.¹¹ Witness Teichman testified that the last time Moore appeared before the Commission for a rate increase was 2003.¹² According to witness Teichman, Moore provides collection-only services to 469 residential customers in Spartanburg County, with 281 customers in the Linville Hills subdivision and 188 customers in the Madera Village subdivision.¹³

Witness Teichman testified that there are a few vacant lots in the Madera Village subdivision and no lots available in the Linville Hills subdivision; however, there are about 58 residents in Linville Hills that utilize septic tanks and drain fields. Therefore, those 58 residents do not currently receive service from Moore.¹⁴ Witness Teichman testified that her responsibilities include management and oversight of Moore's operations, managing

⁸ Teichman Direct, p. 1, ll. 5-9.

⁹ *Id.*

¹⁰ Teichman Direct, p. 1, l. 11 – p. 2, l. 12.

¹¹ Teichman Direct, p. 2, l. 23 – p. 3, l. 2.

¹² Teichman Direct, p. 3, ll. 1-2.

¹³ Teichman Direct, p. 3, ll. 22-23.

¹⁴ Teichman Direct, p. 4, ll. 3-7.

customers' accounts, billing and collection services, customer service issues, and contracting with third-party vendors and contractors.¹⁵ Witness Teichman testified that William Teichman assists with field and diagnostic work, along with managerial support.¹⁶

Witness Teichman testified that Moore is currently authorized to charge a flat rate of \$20.88 for sewer collection under Commission Order 2003-477, and that it has been more than 14 years since Moore has requested a rate increase.¹⁷ Witness Teichman testified that Moore's unadjusted total operating expenses have increased from \$83,437 to \$163,134.¹⁸ Witness Teichman testified that she was not aware of any customer complaints, and that, if any do arise, she has a policy in place to remedy the situation quickly.¹⁹ Witness Teichman testified that a letter from the South Carolina Department of Health and Environmental Control ("DHEC") was filed in this Docket stating that Moore has a valid DHEC permit as required to operate the sewer collection systems.²⁰

Witness Teichman testified regarding how Moore's customers are billed for sewer treatment services. The Spartanburg Sanitary Sewer District ("SSSD") bills Moore in bulk each month for the services provided to Linville Hills; Moore divides that amount by the number of active customers and includes the sewer treatment charge as a separate line item on the customers' next bill. Customers in the Madera Village are billed directly by SSSD

¹⁵ Teichman Direct p. 2, ll. 14-18.

¹⁶ Teichman Direct p. 2, ll. 18-21.

¹⁷ Teichman Direct p. 4, ll. 9-12.

¹⁸ Teichman Direct p. 4, ll. 14-15.

¹⁹ Teichman Direct p. 4, ll. 18-22.

²⁰ Teichman Direct p. 5, ll. 4-6.

for sewer treatment charges and the sewer treatment charge is not reflected in the bills issued by Moore. Witness Teichman testified that, during the Test Year, the average sewer treatment charge per month for the customers in Linville Hills was \$6.27. Witness Teichman testified this amount can easily vary depending on various obstructions that influence the sewer flow in the collection system like grease and rags. Witness Teichman testified that these obstructions raise the volume of the wastewater to be treated. The witness further testified as to the challenges Moore faces regarding past-due charges and fees owed by its customers. Witness Teichman also testified that S.C. Code Ann. Regs. 103-531.1 allows Moore to collect a deposit equal to two months estimated or actual bills, but by the time Moore disconnects service to the customer pursuant to S.C Code Ann. Regs. 103-535.1, the customer has incurred three months of bills and fees which leaves Moore with amounts it is unable to collect from customers. The amount of unpaid debt by customers that moved out of their homes during the Test Year was \$7,686.82.²¹ To rectify this discrepancy and due to Moore's history of non-paying customers, Witness Teichman testified that Moore is requesting to collect a flat customer deposit of \$250.00 from new customers and previously disconnected customers to ensure that Moore would not have to write off past-due charges.²²

Witness Teichman testified that in 2017, Moore repaired several items on its system totaling \$6,450. Witness Teichman testified that Moore is “desperately in need of rate relief” as the Company's earnings are insufficient to continue providing quality service and

²¹ Teichman Direct p. 6, ll. 3-8.

²² Teichman Direct p. 7, ll. 11-19.

to cover the repairs needed on the aging system. Witness Teichman testified that Moore is seeking a rate increase to recover revenues that allow the Company to maintain and upgrade the system.²³

ORS presented a single panel consisting of two witnesses at the hearing, Daniel F. Sullivan and Anthony M. Sandonato. Both witnesses pre-filed Direct²⁴ and Surrebuttal testimonies. The ORS's witnesses' pre-filed testimonies were read into the record and the exhibits, which were filed with and attached to the pre-filed Direct and Surrebuttal²⁵ testimonies, were offered into evidence and made a part of the record as Hearing Exhibits 6 through 8.²⁶

In his pre-filed Direct Testimony, ORS witness Daniel F. Sullivan testified regarding his findings and recommendations resulting from ORS's examination of the Application filed by Moore.²⁷ According to witness Sullivan, ORS's examination of the Company's Application consisted of three major steps: attempting to verify that the operating experience, as reported by Moore in its Application, was supported by Moore's accounting books and records for the 12 months ending December 31, 2016; testing the underlying transactions in the books and records for the Test Year to ensure that the

²³ Teichman Direct p. 7, ll. 9-15.

²⁴ Witness Sullivan corrected his Direct Testimony from the stand to change Line 15 on Page 13 to read the rate base amount of \$177,799 not \$177,461. This correction was also filed with this Commission via letter dated May 25, 2018. This correction did not change witness Sullivan's recommendations or adjustments.

²⁵ ORS witness Sullivan filed exhibits with his direct and surrebuttal testimonies while ORS witness Sandonato filed exhibits only with his direct testimony.

²⁶ From the stand witness Sandonato corrected his Exhibit AMS-1, Page 1, Line Item 5 to reflect that the Company is in compliance with S.C. Code Ann. Regs. 103-531. This correction was also filed with this Commission via letter dated May 25, 2018. This correction was not material in nature.

²⁷ Sullivan Direct, p. 2, ll. 7-10.

transactions were adequately supported, had a stated business purpose, were allowable for ratemaking purposes, and were properly recorded; and adjusting, as necessary, the revenues, expenditures, and capital investments to normalize the Company's operating experience and operating margin, in accordance with generally accepted regulatory principles and prior Commission orders.²⁸ Included with his pre-filed Direct Testimony, witness Sullivan provided a series of exhibits, attached to his pre-filed Direct Testimony and labeled, as "Audit Exhibit DFS-1" through "Audit Exhibit DFS-7," detailing ORS's computations and proposed adjustments to the Application.²⁹

Witness Sullivan testified that ORS had difficulty verifying amounts in Moore's Application to the Company's books and records. The books and records supported test year revenues of \$154,105, yet the Company reported \$115,258 of revenue in its Application. The Application also failed to include a \$27 license fee expense that was included in the books and records. The Company reported \$6,021 of bad debt expense in its Application, but this expense was not recorded in the books and records. Witness Sullivan testified that ORS's accounting and pro forma adjustments account for the correction and normalization of each of these test year amounts.³⁰

Witness Sullivan's Exhibit DFS-2 detailed several adjustments made by ORS which were due to a lack of support³¹ or incorrect categorization of expenses. Witness

²⁸ Sullivan Direct, p. 2, ll. 13-23.

²⁹ Hearing Exhibit 6.

³⁰ Sullivan Direct p. 3, ll. 5-12.

³¹ ORS requested contracts and documentation for various expenses during its review that Moore was unable to provide for the Test Year.

Sullivan testified that several expenses that were incorrectly categorized by Moore were recategorized by ORS during its review. ORS also made adjustments accordingly to allow Moore to recover expenses initially disallowed due to a lack of supporting documentation, but subsequently supported by the Company with valid, executed contracts.³²

ORS witness Sandonato is employed by ORS as a Regulatory Analyst in the Utility Rates and Services Division.³³ In his pre-filed Direct Testimony, witness Sandonato testified regarding ORS' findings relative to his review of Moore's Application.³⁴ Specifically, witness Sandonato testified regarding Moore's compliance with Commission rules and regulations; ORS's adjustment to the test year ending December 31, 2016; revenues at Company's proposed rates; ORS's customer growth calculation; Moore's request to change certain non-recurring charges and tariff language; Moore's request to increase the Deposit and to waive part of S.C. Code Ann. Regs. 103-531.1(A); Moore's requested bad debt expense; ORS's review of work performed by outside vendors; Moore's performance bond requirements; Moore's compliance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA"); ORS' recommendation and adjustments to reflect the impact of the Tax Act; and ORS' recommendations regarding rates.³⁵

³² See Late Filed Hearing Exhibit 5.

³³ Sandonato Direct, p. 1, ll. 11-14.

³⁴ Sandonato Direct, p. 2, ll. 2-6.

³⁵ Sandonato Direct, p. 2, ll. 7-21.

Witness Sandonato testified that Moore is a NARUC Class C wastewater utility according to wastewater revenues reported on its Application for the test year.³⁶ Witness Sandonato testified that Moore is in compliance with all Commission requirements and no complaints have been reported to ORS's Consumer Services Division from Moore's customers in the last three (3) years³⁷. Witness Sandonato testified that, based on ORS's comprehensive review of Moore's wastewater and miscellaneous revenue collections for the Test Year, ORS made a revenue adjustment of \$30,387.³⁸ Witness Sandonato testified that Exhibit AMS-2³⁹ summarizes Moore's service revenues for the Test Year. ORS calculated adjusted Test Year operating revenues using Moore's current rates as approved by Commission Order 2003-477, and Moore's proposed rates as reflected in the Application, which totaled \$117,513.⁴⁰ For comparison purposes, Witness Sandonato testified that ORS calculated Moore's proposed revenue of \$253,260, not including customer growth in the revenue comparisons.⁴¹ Witness Sandonato testified that ORS calculated Test Year miscellaneous revenues, as adjusted, of \$28,132 and for comparison purposes ORS calculated Moore's miscellaneous revenues at the proposed rates at \$29,061, which included the New Customer Set-Up Fee, Late Fees, and the creation of a New

³⁶ Sandonato Direct, p. 3, ll. 12-14.

³⁷ Sandonato Direct, p. 3, l. 21 – p. 4, l. 2.

³⁸ Sandonato Direct, p. 4, ll. 5-7, *see also* Hearing Exhibit 6, DFS-2.

³⁹ Hearing Exhibit 8.

⁴⁰ Sandonato Direct, p. 4, ll. 16-19.

⁴¹ Sandonato Direct, p. 4, ll. 20-21.

Customer Connection Fee.⁴² Witness Sandonato testified Exhibit AMS-3⁴³ provides a breakdown of the ORS calculation for Test Year miscellaneous revenues.⁴⁴ Witness Sandonato also testified that Exhibit AMS-4⁴⁵ calculates the customer growth to be approximately 2.1818% for Linville Hills, 0.5348% for Madera Village, and 1.5152% for Moore as a whole.⁴⁶

Witness Sandonato further testified that ORS reviewed Moore's requested changes and additions to the Company's non-recurring charges⁴⁷ to increase the New Customer Set-Up Fee, establish a New Customer Connection Fee, establish a Damage/Tampering Charge and establish a Tap Fee.⁴⁸ Witness Sandonato testified that ORS does not object to Moore's request to waive certain portions of S.C. Code Ann. Regs. 103-531.1(A); however, Witness Sandonato testified that the Deposit amount for new customers should be limited to an amount sufficient to secure the account for a three (3) month period. Exhibit AMS-5⁴⁹ details the methodology ORS supports to calculate the amount of the Deposit for new customers.⁵⁰ Witness Sandonato also testified that ORS's calculation did not include the

⁴² Sandonato Direct, p. 4, l. 22 – p. 5, l. 2.

⁴³ Hearing Exhibit 8.

⁴⁴ Sandonato Direct, p. 5, ll. 4-5.

⁴⁵ Hearing Exhibit 8.

⁴⁶ Sandonato Direct, p. 5, ll. 7-8.

⁴⁷ Increase New Customer Set-Up Fee from \$10 to \$20; establish a New Customer Connection Fee; Establish a Damage/Tampering Charge; and Establish a Tap Fee.

⁴⁸ Sandonato Direct, p. 5, ll. 11-19.

⁴⁹ Hearing Exhibit 8.

⁵⁰ Sandonato Direct, p. 6, ll. 18-23.

SSSD treatment charge, New Customer Connection Fee, and New Customer Set-Up Fee.⁵¹

Witness Sandonato also testified that new customers should be allowed to pay the Deposit in installment payments over a period no longer than three (3) months as large deposits can be burdensome for some customers.⁵² Witness Sandonato recommended that Moore file updated terms, conditions and/or service regulations with the Commission which detail the Company's procedures related to non-recurring charges⁵³ as Moore's customers should be provided advanced notice of how and when the Company will apply such charges.⁵⁴

Witness Sandonato testified that ORS was unable to verify Moore's bad debt expense of \$6,021, therefore ORS recommends that the bad debt expense be adjusted to \$2,181 which reflects 1.5% of operating revenues and a reasonable amount of bad debt expense for a wastewater utility.⁵⁵

Witness Sandonato explained that Moore uses Operation Drains of the Upstate ("ODU") for all service repairs. To verify the work performed by ODU, ORS requested that Moore provide quotes from other vendors that provide similar services. Witness Sandonato testified that based on ORS's review of the work done by ODU and the quotes from other vendors, the costs invoiced by ODU were reasonable.⁵⁶

⁵¹ Sandonato Direct, p. 6, ll. 24-26.

⁵² Sandonato Direct, p. 7, ll. 3-5.

⁵³ The procedures that Moore plans to adopt that are not currently included in the tariff are: allowing new customers to pay the Deposit in installments, with an initial payment of \$100; waive the Deposit if the customer is the property owner; and waive the New Customer Connection Fee if the customer is the property owner.

⁵⁴ Sandonato Direct, p. 7, ll. 8-12.

⁵⁵ Sandonato Direct p. 7, l. 21 – p. 8, l. 2.

⁵⁶ Sandonato Direct, p. 8, ll. 5-13.

Moore's current performance bond on file with this Commission is for \$100,000; based on ORS's review of the expenses for the test year Witness Sandonato recommended the bond be increased to \$135,000.⁵⁷

Witness Sandonato testified that ORS identified issues with the Company's books and records that place Moore out of compliance with the NARUC USOA.⁵⁸ Witness Sandonato testified that the Company has not recorded Accumulated Deferred Income Taxes ("ADIT") on the balance sheet contained in the Application.⁵⁹ According to witness Sandonato, based on ORS' review of the Company's balance sheet and tax return filings, ORS concluded the Company should have recorded a reserve to reflect the deferral of taxes.⁶⁰ Because the Company did not record ADIT, the Company is not in compliance with the NARUC USOA and 26 U.S. Code § 168(i) (9)-Normalization Rules.⁶¹

Sandonato also discussed ORS's recommendations with regard to Contributions in Aid of Construction ("CIAC") and ORS's proposed treatment of changes in revenue resulting from the Tax Cuts and Jobs Act.

Witness Sandonato testified that, with ORS's adjustments, Moore is earning an operating margin of 0.15%.⁶² Witness Sandonato explained the Company's rates as proposed in the Application, with ORS adjustments, would yield an operating margin of

⁵⁷ Sandonato Direct, p. 8, ll. 16-22.

⁵⁸ Sandonato Direct, p. 9, l. 3.

⁵⁹ Sandonato Direct, p. 9, ll. 4-15.

⁶⁰ Sandonato Direct, p. 9, ll. 22-23.

⁶¹ Sandonato Direct, p. 9, ll. 18-19.

⁶² Sandonato Direct, p. 11, ll. 15-16, *see also* Hearing Exhibit 6, DFS-1.

36.13%.⁶³ ORS proposed a monthly rate of \$27.16, which would generate increased revenue of \$36,308 and an operating margin of 14.99%⁶⁴ for Moore.⁶⁵

In her pre-filed Rebuttal Testimony, witness Teichman testified the Company contested ORS's adjustments to rent expense and interest expense, as well as the recommended operating margin. Witness Teichman testified Moore was not in agreement with ORS's adjustment reducing the rent expense from \$15,330 to \$3,720, and Witness Teichman explained her reasoning behind the Company's proposed rent expense by offering evidence of a commercial rental in close proximity to her personal residence, which is partially used as Moore's office. Witness Teichman testified Moore would be unable to rent just a portion of this commercial space, therefore she calculated the rent expense using the price for the entire space.⁶⁶

Witness Teichman disagreed with ORS's adjustment to interest expense of \$0. Witness Teichman acknowledged witness Sullivan was correct in stating that no payments have been made on the two (2) notes payable totaling \$603,819 but explained Moore has not had the resources to make any payments.⁶⁷

Witness Teichman testified that Moore would add the language recommended by ORS witness Sandonato regarding the non-recurring charges, but instead of waiving the

⁶³ Sandonato Direct, p. 11 ll. 15-18, *see also* Hearing Exhibit 6, DFS-1

⁶⁴ With the rate case expenses accepted by ORS, the operating margin would actually be 14.58%.

⁶⁵ Sandonato Direct, p. 11, ll. 21 – p. 12, l. 2, *see also* Hearing Exhibit 8, AMS 8 and AMS 9.

⁶⁶ Teichman Rebuttal p. 2, ll. 1-9.

⁶⁷ Teichman Rebuttal p. 2, ll. 12-23.

New Customer Fee if the customer is the property owner, Moore would charge all new customers the New Customer Fee.⁶⁸

Witness Teichman disagreed with the monthly rate proposed by ORS witness Sandonato in his Direct Testimony. Witness Teichman requested a new monthly rate of \$37.98⁶⁹ for Moore in her Rebuttal Testimony but corrected the rate to \$40.07 from the stand due to a miscalculation. She also disagreed with the operating margin recommended by ORS. Witness Teichman testified that the additional rate relief is needed to maintain the system and perform necessary repairs for the benefit of Moore's customers.⁷⁰

ORS witness Sullivan pre-filed Surrebuttal Testimony in which he responded to certain issues raised in the Rebuttal Testimony of witness Teichman.⁷¹ In Witness Sullivan's Surrebuttal Testimony, he explained how ORS calculated Moore's rent expense. Moore utilizes only 254 square feet of the Teichman's personal residence and outdoor storage area. By comparing six (6) comparable rentals available in the Moore/Spartanburg area, witness Sullivan calculated an average rental price of \$1.22 per square foot. ORS then multiplied the average rental price of \$1.22 per square foot by the square footage used by Moore to calculate a monthly rental expense of \$310 and a yearly rental expense of \$3,720.⁷² Witness Sullivan explained that to calculate a reasonable rent expense, the average rental price per square foot multiplied by the square footage used of the

⁶⁸ Teichman Rebuttal p. 3, ll. 3-10.

⁶⁹ Moore originally requested a flat rate of \$45 in its application. *See* Application Exhibit A

⁷⁰ Teichman Rebuttal, p. 3, l. 17 – p. 4, l. 8.

⁷¹ Sullivan Surrebuttal, p. 1, ll. 20-22.

⁷² Sullivan Surrebuttal, p. 2, l. 8 – p. 3. l. 2.

Teichman's residence should be used, not the total cost to rent an office that is significantly larger.⁷³

In response to witness Teichman's Rebuttal Testimony regarding the Company's request for interest expense, witness Sullivan explained ORS requested documentation from Moore related to the shareholder note payable for \$41,510 and note payable to Operation Drains, Inc. ("ODI")⁷⁴ for \$562,309. ORS was not provided with a copy of the loan agreement or any documentation regarding the shareholder note payable but was told by Moore and the Company's accountant that no payments have been made on the loan and the loan was taken out to fund capital improvements.⁷⁵

Regarding the note payable to ODI, Moore informed ORS that the note was used for various services including installation of elder valves, repairs, and costs required to close the lagoons. Witness Sullivan testified that, according to the Company, the note was also used to reimburse unpaid costs to maintain and repair the sewer system.⁷⁶ Witness Sullivan testified Moore provided a statement dated July 31, 2006, from ODI to Moore, detailing charges for work performed from 2004 to 2006, as well as finance charges due to lack of payment. This statement⁷⁷ showed a total amount due of \$391,064, of which \$46,132 was billed as finance charges. The Company stated there was additional work

⁷³ Sullivan Surrebuttal, p. 3, ll. 4-18.

⁷⁴ Witness Teichman testified in her Direct Testimony that ODI is a company formally owned by William Teichman, and Moore contracted with ODI for services prior to contracting with ODU. *See* Teichman Direct, p. 1, l. 16 – p. 2, l. 2.

⁷⁵ Sullivan Surrebuttal, p. 4, ll. 9-14.

⁷⁶ Sullivan Surrebuttal, p. 4, ll. 9-21.

⁷⁷ Hearing Exhibit 7, DFS-3.

performed by ODI but was unable to provide invoices for the additional work performed by ODI.⁷⁸ Witness Sullivan acknowledged ODI did perform various services for Moore. However, due to the lack of payments being made on the note, the lack of support for the total value of the note, and the inclusion of finance charges for nonpayment, it is ORS's position that the Company should not recover any expense from rate payers that the Company did not pay for nor should the Company recover interest expense from rate payers for loans the Company is not repaying.⁷⁹ Witness Sullivan testified should the Commission allow Moore to recover interest expense, interest synchronization⁸⁰ should be used to calculate an allowable interest expense. Using the rate base calculated by ORS of \$177,799 with a hypothetical 50% debt and 50% equity capital structure, and Moore's proposed 3.0% interest rate as the weighted average cost of debt, Moore's synchronized interest expense would be \$2,667.^{81,82}

ORS witness Sandonato also pre-filed Surrebuttal Testimony in which he responded to the Rebuttal Testimony filed by Company witness Teichman regarding Moore's proposed tariff language and ORS's recommendation regarding rates.⁸³ Witness Sandonato testified that ORS agrees with Moore's position to clarify the non-recurring

⁷⁸ Sullivan Surrebuttal, p. 4, l. 22 – p. 5, l. 5.

⁷⁹ Sullivan Surrebuttal, p. 5, ll. 9-21.

⁸⁰ ORS recommends the use of interest synchronization as the Commission has approved the use of interest synchronization in previous water and sewer proceedings and interest synchronization prevents a utility from recovering from rate payers interest on funds borrowed for reasons other than financing rate base related costs. *See* Sullivan Surrebuttal, p. 6, l. 13 – p. 7, l. 11.

⁸¹ Sullivan Surrebuttal, p. 6, ll. 4-10, *see also* Hearing Exhibit 7, DFS-4.

⁸² With the additional rate case expenses accepted by ORS, the synchronized interest would be \$2,669.

⁸³ Sandonato Surrebuttal, p. 1, l. 20 – p. 2, l. 3.

charges on the Company's tariff.⁸⁴ Witness Sandonato testified that ORS disagreed with the Company's proposed rate of \$37.98⁸⁵, as no support was provided to justify the requested rate. Additionally, Sandonato stated that if the Company's proposed rate was implemented, along with ORS's recommended adjustments to revenue and expenses, the Company's operating margin would be 29.93%.⁸⁶ ORS recommended a rate of \$27.16 based on ORS's review of the Company's books and records. Witness Sandonato testified ORS's proposed rate will generate additional revenues that will allow Moore to sufficiently recover its operating costs, preserve Moore's financial integrity, and allow Moore to attract capital for future investments. Additionally, this proposed rate of \$27.16 will allow Moore to provide safe, reliable, and quality service to its customers at a reasonable rate. Witness Sandonato testified the ORS proposed rate will provide a prudent balance between the consumer's need for affordable, quality service and Moore's financial health.⁸⁷

III. FINDINGS OF FACT AND CONCLUSIONS OF LAW

A. BACKGROUND

Moore is a public utility, as defined by S.C. Code Ann. § 58-5-10(3), providing sewer collection services to residential customers in Spartanburg County, South Carolina.⁸⁸ Moore's operations are classified by NARUC as a Class C wastewater utility according to

⁸⁴ Sandonato Surrebuttal, p. 2, ll. 6-11.

⁸⁵ Witness Teichman corrected this amount to \$40.07 on the stand due to an error in calculation, Witness Sandonato's calculations use the amount filed in Witness Teichman's Surrebuttal Testimony of \$37.98.

⁸⁶ Sandonato Surrebuttal, p. 2, ll. 17-20.

⁸⁷ Sandonato Surrebuttal, p. 3, ll. 1-13.

⁸⁸ Application, p. 1.

wastewater revenues reported in its Application for the twelve (12) months ending December 31, 2016 (“Test Year”).⁸⁹ According to data provided by Moore, the Company provides wastewater collection and treatment services to 469 residential customers.⁹⁰

B. MOORE’S APPLICATION

The Commission accepted Moore’s Application for filing on December 20, 2017.⁹¹ The Commission-approved service area for Moore is in Spartanburg County.⁹² The current rate schedule for Moore was approved by Commission Order No. 2003-477 issued in Docket No. 2003-41-S.⁹³

In its Application Moore proposed changes to its current tariff including a monthly base sewer charge of \$45.00; a non-recurring charge of \$250 for a Customer Deposit to cover three months billing; a new customer set-up fee of \$20.00; a new customer connection fee of \$35.00; a notification of disconnection fee of \$25.00⁹⁴; and a reconnection fee of \$250.⁹⁵

Per the Company’s Application, Moore requested a \$133,142 increase.⁹⁶ Per ORS, the Company’s proposed rates will result in an increase in Total Operating Revenues,

⁸⁹ Sandonato Direct, p. 3, ll. 12-15.

⁹⁰ Sandonato Direct, p. 3, ll. 15-16.

⁹¹ See Application.

⁹² Sandonato Direct, p. 4, l. 16-17.

⁹³ Application, p. 1.

⁹⁴ Witness Teichman acknowledged that this amount was not properly noticed, so the disconnect fee will remain at the current charge of \$18.00. See Revised Exhibit A filed January 24, 2018.

⁹⁵ See Application, Exhibit A.

⁹⁶ See Application, Exhibit B.

recalculated by ORS witness Sandonato and shown on ORS witness Sullivan's Audit Exhibit DFS-1 of \$136,676.⁹⁷ The proposed rates and charges were attached as Exhibit A to the Application.

C. RATE MAKING METHODOLOGY

Generally, the Commission has wide latitude to determine an appropriate rate-setting methodology. *Heater of Seabrook, Inc. v. Public Service Comm'n*, 324 S.C. 56, 478 S.E.2d 826 (1996). In the present case, Moore has chosen to request that the Commission determine the reasonableness of its proposed rates using the operating margin methodology. There was no evidence presented by any party supporting the use of any other ratemaking methodology. Accordingly, the Commission will utilize the operating margin methodology in setting Moore's rates in this case.

Pursuant to S.C. Code Ann. § 58-3-140(A) the Commission has the "power and jurisdiction to supervise and regulate the rates and service of every public utility in this State and to fix just and reasonable standards...."

The Company is a public utility subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §§ 58-3-140(A) and 58-5-210 (2015). The Commission requires the use of an historic twelve-month test period under S.C. Code Ann. Regs. 103-823.A(3) (2012). These findings of fact and conclusions of law are informational, procedural and jurisdictional in nature and are not contested by any party of record in this proceeding.

⁹⁷ *Id.*

D. TEST YEAR

The test year is established to provide a basis for making the most accurate forecast of the utility's rate base, revenues, and expenses in the near future when the prescribed rates are in effect.⁹⁸ The historical test year may be used as long as adjustments are made for any known and measurable out-of-period changes in expenses, revenues, and investments.⁹⁹ Moore's financial statements in this case used a test year ending December 31, 2016. ORS utilized the same test year in conducting its examination. Given that no other test year was proposed, the test year ending December 31, 2016, is appropriate and will be used in this case.

E. ADJUSTMENTS TO REVENUES

Moore reported per book test-year revenues of \$115,258 in its Application. ORS calculated Moore's total operating revenues as \$145,386 after accounting and the pro forma adjustments to operating revenue.¹⁰⁰

The ORS adjustments removed \$259 from revenue for the amortization of the shortfall of taxes collected by the Company due to the Tax Cuts and Jobs Act (TCJA). The Commission finds that all implications of the TCJA should be considered in Docket No. 2017-381-A, if applicable. Therefore, this Commission finds that Moore's Total Operating Revenues for the test year are \$145,645.

⁹⁸ *Porter v. South Carolina Pub. Serv. Comm'n*, 328 S.C. 222, 493 S.E.2d 92 (1997).

⁹⁹ *Id.*

¹⁰⁰ Hearing Exhibit 6, DFS-1.

F. ADJUSTMENTS TO EXPENSES

ORS recommended adjustments to various operating expenses, with Moore only objecting to ORS's adjustments to rent expense and interest expense. Moore proposed to include rate case expenses incurred in this rate case, which ORS has accepted as appropriate, amortized over five years. Moore further proposed that additional rate case expenses incurred through the date of the hearing in this matter be included, subject to ORS's review of the requested additional amount and examination of supporting documentation. ORS has now advised the Commission that it received and reviewed the documentation supporting the additional rate case expenses requested by Moore and agrees with the inclusion of \$4,897 in additional rate case expenses. Because the additional rate case expenses are known and measurable, the Commission will allow them to be included in the total rate case expense and amortized over five years. We find the Company is entitled to \$30,659 total rate case expenses, including the additional \$4,897 in rate case expenses ORS verified after testimony was filed. The approved amount of \$30,659 is to be amortized over five years resulting in a rate case expense adjustment of \$6,132.

G. RENT EXPENSE

ORS recommends that the rent expense should be calculated based on the square footage of the Teichman's home actually utilized by Moore in its business operations multiplied by the average rental price per square foot of comparable office spaces in the Moore/Spartanburg area. Witness Sullivan testified that the average was taken from six (6) office spaces available for rent in close proximity to the Teichman's residence, which

is used as the business office for the Company. The comparable rentals provided by ORS represented a range of reasonable rental rates.

This Commission finds that it is just and reasonable to calculate the rent expense based on the actual square footage used by the Company, multiplied by the average price per square foot for comparable rentals in the area. Therefore, this Commission agrees with ORS's position to calculate rent expense using an average price per square foot of \$1.22, monthly rental expense of \$310, and yearly rent expense of \$3,720.

The net result of the Commission's conclusions regarding the Company's expenses results in Moore's allowable total operating expenses for the test year (after pro forma and accounting adjustments) being \$146,092. The Commission agrees these expenses are just and reasonable.

H. ACCUMULATED DEFERRED INCOME TAXES

ORS testified the Company is not in compliance with the NARUC USOA and 26 U.S. Code § 168 (i)(9) as the Company has not recorded Accumulated Deferred Income Taxes. ORS recommended the Company should establish ADIT and revalue the ADIT to account for the new 21% federal income tax rate.

This Commission finds ORS's recommendation to be just and reasonable, as it would bring the Company into compliance.

I. TAX CUTS AND JOBS ACT

Regarding the effect of the Tax Cuts and Jobs Act, ORS recommended certain adjustments to incorporate the impacts of the Act. ORS recommended the Company add tariff language to allow for a tax multiplier associated with tap fees and other CIAC. This recommendation does not change a rate applicable to any current customer and would not generate operating review, but only passes through to future customers or developers.

ORS recommended the Company place the \$1,295 shortfall due to the tax change into a regulatory asset and amortize this amount over five (5) years to coincide with the timing related to the proposed amortization schedules for rate case expenses.

The Commission declines to accept the ORS's recommendations relating to the Tax Cuts and Jobs Act. In Order No. 2018-308, we held that, beginning January 1, 2018, regulatory accounting treatment is required for all regulated utilities for any impacts of the new law, including current and deferred tax impacts. We also held that the utilities should track and defer the effects resulting from the Tax Act in a regulatory liability account, and further, for water/wastewater utilities with operating revenues that are equal or greater than \$250,000, the issue will be addressed at the next rate case or other proceeding. In this instance, the utility does not meet the \$250,000 threshold, and therefore does not need to book the shortfall in revenue. The remaining provisions of Order No. 2018-308 apply to the present case, as well as to other utilities indicated in Order No. 2018-308.

J. INTEREST EXPENSE

The Commission accepts the use of interest synchronization to calculate allowable interest expense. Using a rate base of \$176,886, 50/50 capital structure and the Company's

proposed 3% interest rate as the embedded cost, the Company's synchronized interest expense would be \$2,653.

K. BASE SEWER MONTHLY RATE

ORS recommends the Company charge a flat rate for sewer-collection only service of \$27.16. However, the Commission has performed calculations using the utility's revenue and expenses and applying the accounting and pro forma adjustments set out herein and determined the appropriate flat monthly rate to be \$27.93. This rate will provide a prudent balance between the customer's need for affordable, quality service and Moore's financial health.

L. TOTAL INCOME FOR RETURN

Based upon the above determinations concerning the accounting and *pro forma* adjustments, and Moore's revenues and expenses, the as adjusted Total Income (Loss) for return is (\$447), calculated as follows:

Operating Revenues	\$145,645
Operating Expenses	<u>\$146,092</u>
Net Operating Income	(\$447)
Customer Growth	\$0
Total Income (Loss) for Return (Before Interest)	<u>(\$447)</u>

M. OPERATING MARGIN

Based upon Moore's gross revenues for the test year, after accounting and *pro forma* adjustments under the presently approved rate schedules, Moore's operating margin is as follows:

OPERATING MARGIN BEFORE RATE INCREASE

Operating Revenues	\$145,645
Operating Expenses	<u>\$146,092</u>
Net Operating Income	(\$447)
Add: Customer Growth	\$ 0
Less: Interest Expense	<u>\$ 2,653</u>
Total Income (Loss) for Return	<u>(\$ 3,100)</u>
Operating Margin (After Interest Expense of \$2,653)	(2.13%)

The Commission determines that Moore should have the opportunity to earn an additional \$40,642 in annual operating revenues, which results in an operating margin of 14.99%. The operating margin is calculated as follows:

OPERATING MARGIN AFTER RATE INCREASE

Operating Revenues	\$186,287
Operating Expenses	<u>\$156,168</u>
Net Operating Income	\$ 30,119
Add: Customer Growth	\$ 456
Less: Interest Expense	<u>\$ 2,653</u>
Total Income for Return	<u>\$ 27,922</u>
Operating Margin (After Interest Expense of \$2,653)	14.99%

The Commission concludes that an increase in rates is necessary and warranted. Moore's operating expenses have increased since the Company's last rate case in 2003. The proposed rate increase is designed to generate additional revenues that will allow

Moore to recover its operating costs, preserve its financial integrity, and to increase its earnings to a more reasonable level through fair charges to the consumer.

N. APPROVED RATES

In accordance with the above findings and conclusions, the Application of the Company and the testimony in the record of this case, the Commission approves the rates and charges contained in the attached Order Exhibit A.

IV. CONCLUSION

Based upon the above considerations and reasoning, the Commission hereby approves the rates and charges as stated in this Order and attached hereto as Order Exhibit A as being just and reasonable.

IT IS THEREFORE ORDERED THAT:

1. The rates and charges attached on Order Exhibit A are approved for service rendered on or after July 1, 2018, and this rate schedule is hereby deemed to be filed with the Commission pursuant to S.C. Code Ann § 58-5-240 (2015).
2. The additional annual revenues the Company is entitled to earn produces an operating margin of 14.99%.
3. The Company shall include the attached notice (Order Exhibit B) of its new rates and charges in its first bill following the issuance of this Order. Should the approved schedule not be placed into effect before three months after the effective date of this Order, then the approved schedule shall not be charged without written permission of the Commission.
4. A test year ending December 31, 2016, is appropriate in this case.


5. Moore shall maintain its books and records for its operations in accordance with the NARUC Uniform System of Accounts for Class C utilities, as adopted by the Commission.

6. Moore shall properly book ADIT.

7. Moore shall maintain a performance bond in the amount of \$135,000 for its wastewater operations.

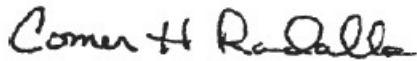
8. This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:



Swain E. Whitfield, Chairman

ATTEST:



Comer H. Randall, Vice Chairman

Schedule of Rates and Charges

Moore Sewer, Inc.
Docket No. 2016-384-S

1. Monthly recurring charge

- | | |
|---|--|
| A. Residential | \$27.93 |
| B. Commercial | \$27.93 per Single
Family Equivalent
(SFE) |
| C. Waste treatment - as billed by Spartanburg Sanitary Sewer District for the Linville Hills
Subdivision only. | |

2. Nonrecurring charges

- | | |
|---|-----------|
| A. Customer Deposit* | \$120.00* |
| *Customer Deposit to be set at no more than 3 months of non-payment based on Customer Rates | |
| B. New Customer Set-Up Fee | \$20.00 |
| This one-time fee will be charged to initiate each new account. | |
| C. New Customer Connection Fee | \$35.00 |
| To begin sewer service for a new customer when applicable. | |
| D. Notification of Disconnection | \$18.00 |
| This fee shall be charged to each customer to whom the company mails a notice of discontinuance of service as required by 10 S.C. Code Ann. Regs. 103-535.1 prior to service being discontinued. | |
| E. Reconnection Charges | |
| In addition to any other charges that may be due, the company may require a customer with a poor payment history to pay a deposit prior to reconnection as set forth in 10 S.C. Code Ann. Regs. 103-531(d). | |

A reconnection fee of \$250.00 shall be due prior to the Company reconnecting service which has been disconnected for any reason set forth in 10 S.C. Code Ann. Regs. 103-532.4. Where an elder valve has been previously installed, a reconnection charge of \$35.00 will be due. The amount of the reconnection fee shall be in accordance with 10 S.C. Code Ann. Regs. 103-532.4, and shall be changed to conform with that rule as it may be amended from time to time.

F. Damage/Tampering Charges

In the event the Company's equipment, facilities, or parts have been damaged or tampered with, the company may charge the customer residing at the damaged premises the actual cost of repairing the company's equipment or facilities, or replacing the damaged part or parts, not to exceed \$250.00. The damage/tampering fee shall be paid in full prior to the Company re-establishing service or continuing the provision of sewer service. Any additional costs incurred due to the damage/tampering by a customer may be pursued through other legal mechanisms at the company's discretion.

Schedule of Rates and Charges

Moore Sewer, Inc.
Docket No. 2016-384-S

G. Late Penalty Charge

The Company may charge a late-payment penalty up to the maximum amount allowed by 10 S.C. Code Ann. Regs. 103-532.2.

H. Non-sufficient funds (NSF) check charge

The company may charge a NSF check charge up to the maximum amount allowed by applicable South Carolina Statute.

I. Tap Fee

- | | |
|---|--------------------|
| a. Tap Fee where a Road Cut is required | \$3,500.00 per SFE |
| b. Tap Fee (no Road Cut) | \$1,500.00 per SFE |

3. Billing cycle

Customers are billed in arrears for service provided. New Customer Connection Fee, New Customer Set-Up Fee and Customer Deposit are due and payable in advance of service being provided.

Notice Regarding the Public Service Commission's Decision in Order No. 2018-445

Docket No. 2016-384-S: Application of Moore Sewer, Incorporated for Adjustment of Rates and Charges and Modification to Certain Terms and Conditions for the Provision of Collection-Only Sewer Service

On December 20, 2017, Moore Sewer, Incorporated ("the Company") filed an Application with the Public Service Commission of South Carolina ("the Commission"). In this Application, the Company requested that the Commission approve an adjustment of rates and charges and modifications to certain terms and conditions for the provision of collection-only sewer service. The company's application requested an increase in revenues of \$133,142.

The Commission held a Public Night Hearing near the Company's service territory in Spartanburg, SC on May 3, 2018. The merits hearing was held on May 22, 2018 in Columbia, SC. On June 20, 2018, based on the evidence in this case, the Commission approved an increase in revenues of \$40,642 annually.

A copy of the Commission Directive can be found here:

<https://dms.psc.sc.gov/Attachments/Matter/0aaa417a-141e-46d6-8e3f-339bfa77213d>

Sewer Service Rates

Sewer Service	Current Rate	Proposed Rates	Commission Approved Rate
Residential*	\$20.88	\$45.00	\$27.93
Commercial*	\$20.88	\$45.00	\$27.93/SFE**

*Linville Hills Subdivision only: Waste treatment, as billed by the Spartanburg Sanitary Sewer District to Moore Sewer, Inc. will be evenly divided by Active Households.

**SFE – (Single Family Equivalent) Determined by using SC Department of Health and Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities